

BioMS MEDICAL CORP. ANNUAL REPORT 2005

04.01.05







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It began with one patient. On January 4, 2005, the first patient arrived at St. Michael's hospital in Toronto, to receive their first intravenous injection of MBP8298, a therapeutic that has shown great potential in slowing the progression of secondary progressive multiple sclerosis (SPMS). This patient symbolized the start of BioMS Medical's pivotal phase II/III clinical trial and marked an exciting period for the company—a critical hurdle before this medical break-through could potentially be made available to MS patients globally, positively affecting the lives of hundreds of thousands of people.

**THE
ONLY
PHASE III
TRIAL
FOR
SECONDARY
PROGRESSIVE
MS
IN
THE
WORLD.**

MBP 8298
(500 mg D-17-T for IV Injection)

Protocol number: MBP 8298-01

For clinical trial use only.

Investigational Drug. To be used by
Investigators Only.

Reconstitution: See Directions for use

Caution: New Drug - Limited

Manufactured by
BioMS Medical

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From the first patient's initial dosing of MBP8298, BioMS has continued to gain momentum as it advances patient enrollment across Canada, the UK and Sweden. After 26 years of research and the successful completion of phase I and II trials, BioMS is currently the only late-stage clinical trial in the world for the treatment of SPMS, a form of MS that affects approximately 45% of the estimated 2.5 million MS patients worldwide.

Early results from the double-blinded phase II trial were positive, demonstrating significant delays in the progression of MS in patients who had HLA-DR2 or HLA-DR4 immune response genes. The safety of MBP8298 is well documented, with the longest patient being on the drug for over 12 years. There is currently a lack of effective treatments for progressive MS and with an estimated \$8 billion market opportunity, BioMS is in a very unique position.

BioMS expects to complete full enrollment in 2006 and has met crucial milestones in the process, including three positive Data Safety Monitoring Board (DSMB) reviews.

UP TO

50

CLINICAL
SITES



SUPPORTED BY LEADING INTERNATIONAL INVESTIGATORS

CANADA Dr. Mark Freedman, Professor of Neurology at the University of Ottawa and Director of the MS Research Clinic at the Ottawa Hospital. Dr. Freedman is a world expert in disease models of MS and clinical immunology, with over two decades of experience in developing MS treatments. He is a Fellow of the American Academy of Neurology, serves on the medical advisory committee for the MS Society of Canada and is a member of the clinical trial group for the National MS Society (USA).

UNITED KINGDOM Dr. Carolyn Young, Consultant Neurologist at the Walton Centre for Neurology and Neurosurgery, Liverpool, and honorary senior lecturer at the University of Liverpool. Dr. Young founded the MS services at the Walton Centre in 1993 and has acted as principal or chief investigator for more than 20 trials in MS therapies.

SWEDEN Dr. Tomas Olsson, Head of CNS research, Professor of Molecular Medicine, and Senior Staff Physician of Neurology at the Karolinska Hospital in Stockholm. Dr. Olsson is a member of the Nobel Assembly, serves on the editorial board of a number of scientific journals, the board of the Swedish MS Society, and both the international MS Society and the scientific board of the European committee for the treatment of MS. He is also co-founder and board member of the European School of Neuroimmunology.

"The BioMS study is the first study to truly define "progressive" disease and distinguish it clinically from relapse-related progressive disease. As a result this study in addition to testing the MBP8298 peptide on as pure a clinically-defined progressive group as is possible, will yield important new natural history data as well as MRI and immunological information about this carefully selected cohort of patients. Progressive MS is the disease we must learn to heal and the results of this study, no matter what the outcome, will be an important step to reaching that goal."

Dr. Mark Freedman

\$41

MILLION RAISED

STRONG CAPITAL POSITION

In 2005, BioMS successfully completed one of the largest Canadian biotech financings, raising over \$41 million. Over 40 institutions in six countries participated, including Denmark, Sweden, Switzerland, Norway, Canada and the UK. From this position of fiscal strength, BioMS is only 30-36 months away from potentially obtaining the results needed to introduce MBP8298 to SPMS patients around the world.

MBP8298 represents an investment opportunity for our shareholders with blockbuster potential—an \$8 billion market opportunity. However, the other value of this therapy is on a more personal scale, with the drug having the potential to change the lives of hundreds of thousands of MS patients around the globe who do not currently have any treatment options. BioMS is not just establishing a promising future for our shareholders, but also for MS patients everywhere.

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OUR LAST TRIAL PATIENT WILL JUST BE THE BEGINNING.

BioMS is building on the momentum generated throughout the pivotal trial to expand its horizons. As we continue to lead the current trial in Canada and Europe, BioMS expects to advance our US strategy with an Investigational New Drug (IND) submission for a second SPMS trial, in addition to exploring the effectiveness of MBP8298 in relapsing remitting MS.

MS affects approximately 2.5 million people worldwide and yet there are limited therapy options available for progressive MS patients. MBP8298 was specifically designed for the treatment of multiple sclerosis patients and, with a combined total of over 300 patient-years of experience, BioMS is well on its way to offering hope for millions of lives.

Clifford Giese
Chairman

Kevin Giese
President and CEO



“OUR MISSION REMAINS FOCUSED: TO DELIVER AN EFFECTIVE AND SAFE TREATMENT FOR PEOPLE WITH MS. HAVING WITNESSED THE DEVASTATING EFFECTS OF MULTIPLE SCLEROSIS FIRST HAND, IT IS CLEAR TO ME HOW LARGE AN IMPACT MBP8298 WILL HAVE IF WE ARE SUCCESSFUL AND HOW CRITICAL IT IS THAT WE SUCCEED.”

Clifford Giese, Chairman

DEAR SHAREHOLDERS

BioMS built tremendous momentum in 2005 towards unlocking the potential of MBP8298. We initiated our pivotal phase II/III multiple sclerosis trial for MBP8298, expanded the trial beyond Canada into the UK and Sweden, and raised more than \$41 million to support our drug development efforts. Thanks to the commitment of our employees, partners, consultants, clinical investigators, doctors, nurses and patients participating in this study, we can all proudly claim to be undertaking the only late-stage trial for the treatment of secondary progressive multiple sclerosis.

MBP8298 is a drug designed to target patients with a genetic predisposition to MS. It has demonstrated the ability to significantly delay the progress of SPMS in a responder group with genetic traits common to almost 75% of MS patients. More than 300 combined patient years of treatment experience have been gained and many patients continue to be treated, the longest for 12 years.

We initiated the Canadian arm of our phase III trial at the start of 2005 and enrolled the first 100 patients, who received extensive safety analysis and were recruited from a limited number of sites, in the first 12 months. From there, enrollment accelerated significantly as we included additional sites in the UK and Sweden and we expect to complete enrollment of the 553 patients in 2006. The trial is supported by leading research institutions and investigators and continues to receive positive reviews from its Data Safety Monitoring Board.

Canada, the UK, Scandinavia, and the northern United States have among the highest rates of multiple sclerosis in the world. Our strategy remains to seek regulatory approval for our drug in each of these jurisdictions and ultimately on a worldwide basis. Discussions have begun with the FDA to determine the appropriate regulatory approval path for MBP8298 in the U.S.

Of the more than 2.5 million MS patients worldwide, our drug currently targets approximately 45% of the MS patient population. The market size for this unmet need is estimated to have a potential of \$8 billion annually. We also continue to pursue additional opportunities including developing HYC750 and advancing the research being conducted at BioCyDex. To fund all of these drug development initiatives, BioMS successfully completed one of the largest Canadian biotech financings in years, raising more than \$41 million from more than 40 institutions in Canada and across Europe.

Our achievements in 2005 were significant and we continue to gain momentum into 2006. We thank our employees for their dedication and our shareholders for joining with us as we steadily work to advance our critically important MS drug towards commercialization.



Clifford Giese
Chairman
BioMS Medical Corp.



Kevin Giese
President and CEO
BioMS Medical Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Year Ended December 31, 2005

This Management's Discussion and Analysis of Financial Condition and Results of Operations for BioMS Medical Corp. should be read in conjunction with the audited Consolidated Financial Statements and accompanying notes. The Consolidated Financial Statements and comparative information have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). Unless otherwise indicated, all amounts shown are in Canadian dollars.

INTRODUCTION

BioMS Medical Corp. ("BioMS" or the "Corporation") has licensed a synthetic peptide technology, MBP8298, for the treatment of multiple sclerosis on a worldwide basis. To date, MBP8298 has undergone Phase I and II human clinical trials. The Corporation has received approval from Health Canada as well as regulatory authorities in the United Kingdom and Sweden to conduct a Phase II/III Pivotal Clinical Trial on MBP8298. The enrollment has commenced for the trial in Canada, the United Kingdom and Sweden. The trial data has been reviewed, on a continuous basis, by the independent Data Safety Monitoring Board which has recommended that the trial continue.

The Corporation has also licensed a new platform technology, HYC750, involving a method for mobilizing hematopoietic cells in humans for use in the treatment of cancer therapy related side effects and other diseases. The technology has undergone certain pre-clinical testing, as well as preliminary human clinical trials.

BioMS Medical has a 49% interest in BioCyDex Inc. BioCyDex is a private company that is developing a unique proprietary drug delivery technology to deliver both novel antiviral and chemotherapeutic compounds directly into cells, with the potential to greatly enhance their effectiveness. The company is additionally developing technology for the delivery and imaging of genes in cells to be used as part of gene therapy treatments.

To fund its operations, the Corporation relies upon proceeds of public and private offerings of equity securities and interest income.

Shares of the Corporation trade on the Toronto Stock Exchange (TSX) under the symbol, MS.

FINANCIAL INFORMATION

Financial Information for the last three years ended December 31, 2005

	2005	2004	2003
Expenses	\$ (16,922,869)	\$ (12,895,804)	\$ (8,430,424)
Less; investment income	\$ 1,163,086	\$ 388,570	\$ 789,897
Net loss	\$ (15,759,783)	\$ (12,507,234)	\$ (7,640,527)
Loss per common share	\$ (0.26)	\$ (0.24)	\$ (0.16)
Total assets	\$ 51,359,161	\$ 27,248,665	\$ 32,673,701

RESEARCH AND DEVELOPMENT EXPENSES

The consolidated net loss of the Corporation for the year ended December 31, 2005 was \$15.8 million or \$0.26 per share compared with a consolidated net loss of \$12.5 million or \$0.24 per share for the previous year. The increase in the loss was the result of larger research and development expenditures of \$3.3 million, increased general and administrative expenses of \$0.7 million, partially offset by the increase in investment income of \$0.8 million. It is expected that research and development expenses will increase over the next 2 years as the MBP8298 clinical trial continues.

EXPENSES

Total consolidated expenses for the year ended December 31, 2005 were \$16.9 million as compared with \$12.9 million in the previous year. In 2005, expenses related to the Corporation's direct research and development efforts accounted for \$10.6 million or 62% of all expenses as compared with \$7.3 million or 56% in 2004.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the year ended December 31, 2005 totaled \$10.6 million compared with \$7.3 million in 2004. The increase in expenses is the result of the increase in the number of patients being enrolled in the pivotal Phase II/III Clinical Trial for MBP8298.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased to \$4.8 million for the year ended December 31, 2005 as compared to \$4.1 million in the year ended December 31, 2004. General and administrative expenses represented approximately 28% of total gross expenses for the Company in 2005 compared with approximately 32% in 2004. General and administrative expenses include the following: investor relations, professional fees, business development, insurance, listing fees, consulting services, office expenses, occupancy costs, management remuneration, directors' fees and various other expenses relating to the operations and growth of the Corporation. The increase in the general and administrative expenses is the result of a general increase in the overall activity of the Corporation.

STOCK-BASED COMPENSATION EXPENSE

As of January 1, 2003, the Corporation adopted a new accounting standard for stock-based compensation. As such, new awards of stock options commencing January 1, 2003 are accounted for in accordance with the fair value method of accounting for stock-based compensation and result in compensation expense over the period in which the related services are rendered.

During the year, the Corporation granted 1,297,500 new stock options. The Corporation used the Black-Scholes option pricing model to estimate the fair value of the options granted. The 1,297,500 options granted were vested immediately. Application of the fair value method resulted in a \$713,059 charge to stock-based compensation expense with a corresponding charge credited to contributed surplus for the year ended December 31, 2005.

Investment Income

Investment income earned on funds invested was \$1.2 million for the year ended December 31, 2005, as compared to \$0.4 million for the previous year. The Corporation expects that investment income will continue to fluctuate in relation to prevailing interest rates and amounts of cash reserves invested.

Loss Summary

Financial Information – Quarterly

Year Ended December 31, 2005	Q1		Q2		Q3		Q4
Research and development	\$	1,050,614	\$	1,765,528	\$	3,204,259	\$ 4,552,426
General and administrative		1,073,578		1,118,421		847,525	1,767,454
Amortization of licensing costs		367,935		367,936		367,935	367,908
Amortization of property and equipment		14,133		14,338		17,914	24,965
Investment income		91,624		364,590		490,724	216,148
Net loss	\$	2,414,636	\$	2,901,633	\$	3,946,909	\$ 6,496,605
Loss per common share – basic	\$	(0.05)	\$	(0.05)	\$	(0.06)	\$ (0.10)

Year Ended December 31, 2004	Q1		Q2		Q3		Q4
Research and development	\$	3,368,811	\$	995,454	\$	1,065,846	\$ 1,852,438
General and administrative		779,835		883,939		1,056,190	1,377,896
Amortization of licensing costs		367,936		367,935		367,936	367,935
Amortization of property and equipment		8,442		8,677		12,701	13,833
Investment income		90,585		112,681		98,950	86,354
Net loss	\$	4,434,439	\$	2,143,324	\$	2,403,723	\$ 3,525,748
Loss per common share – basic	\$	(0.09)	\$	(0.04)	\$	(0.05)	\$ (0.07)

BioMS Medical Corp. is a development stage corporation, with its primary focus being the development and commercialization of a medical treatment for multiple sclerosis. As such, the Corporation's focus is not on earnings (loss) per share, but rather that it has adequate financial resources to fund the research and development programs it conducts. As discussed more fully in the liquidity section of this document, the Corporation believes it currently has adequate resources to fund the expected costs of the current clinical trial through to the second half of 2007.

The quarterly results of the Corporation have fluctuated primarily as a result of the timing of research and development activities.

In the 4th quarter of 2005, the Corporation incurred a loss of \$6,496,605 or \$0.10 per share as compared to a loss of \$3,525,748 or \$0.07 per share in the 4th quarter of 2004. Investment income was \$216,148 in the period in 2005 compared to \$86,354 in 2004. Research and development expenses increased to \$4,552,426 in 2005 from \$1,852,438 in 2004. General and administrative expenses increased to \$1,767,454 for the quarter in 2005 from \$1,377,896 in 2004.

Liquidity and Capital Resources

At December 31, 2005, cash and short-term investments totaled \$38.0 million as compared to \$14.4 million at December 31, 2004.

At December 31, 2005, the Corporation had working capital of \$37.2 million as compared to \$13.9 million at December 31, 2004. Management estimates that the current working capital is sufficient for the Corporation to meet its obligations in respect of the existing clinical trial program through to the second half of 2007.

During the year, the Corporation strengthened its cash position by the issuance of 11,500,000 shares through a public offering at \$3.60 per share, for gross proceeds of \$41,400,000. There were 53,500 stock options exercised, which added \$38,400 to the corporation's cash position, and 47,200 warrants exercised for proceeds of \$188,800.

During the year, the Corporation repurchased by way of a Normal Course Issuer Bid 483,200 shares of the company at a cost of \$1,299,252.

BioMS has implemented a disciplined approach to the management of liquidity, capital and overall stability. The Corporation invests its cash reserves primarily in liquid, interest bearing securities.

The Corporation used \$13,162,387 cash in operating activities for the year ended December 31, 2005 as compared to \$12,325,526 in the year ended December 31, 2004.

BioMS is preparing to expand its clinical trial program with its MBP8298 technology for the treatment of Multiple Sclerosis into other indications and jurisdictions, including the U.S., in the forthcoming year. The Corporation signed a letter of intent with ICON, a global clinical research organization (CRO), to assume the lead for BioMS Medical's current phase II/III clinical trial with MBP8298. As a result, the Corporation expects to increase the potential number of clinical trial sites to a total of up to 50 across both Canada and Europe, and is targeting the completion of enrollment of the trial in mid 2006.

BioMS expects to continue to incur operating losses until such time as its lead drug, MBP8298 technology for the treatment of Multiple Sclerosis, has received regulatory approval and is available for commercial production. The company estimates that it has sufficient cash to cover the expected costs of the current MBP8298 Phase II/III clinical trial through to the second half of 2007. BioMS anticipates that it will approach the equity markets for the funding of additional research, manufacturing, preclinical and clinical trial expansion programs. The Corporation's ability to raise capital will depend on equity market conditions at that time.

Operating Performance

The Corporation's operations involve certain risks and uncertainties that are inherent to the Corporation's industry. The most significant known risks and uncertainties faced by the Corporation are described below.

Licenses and Patents. The Corporation's success will depend in part on its ability to obtain licenses and patents, protect its trade secrets, and operate without infringing the exclusive rights of other parties. There is no guarantee that any license and patent that will be granted to the Corporation will bring any competitive advantage to the Corporation, that its license and patent protection will not be contested by

third parties, or that the licenses and patents of competitors will not be detrimental to the Corporation's commercial activities. It cannot be assured that competitors will not independently develop products similar to the Corporation's products, that they will not imitate the Corporation's products or that they will not circumvent licenses and patents granted to the Corporation.

Clinical Studies. The Corporation has commenced a Phase II/III clinical trial for its multiple sclerosis product, MBP8298. This study requires considerable resources from the Corporation. Obtaining positive and conclusive results from this study is an essential condition of product commercialization. Therefore, unsatisfactory results may considerably hinder the development and commercialization of the Corporation's products.

Regulatory Approvals. In order to commercialize its products and hence generate revenues, the Corporation must first obtain the approval of regulatory agencies in each of the countries where it wishes to sell its products. The Corporation's products may not meet the criteria established by the various agencies and, consequently, may not obtain required approvals for commercialization.

Commercialization. Once commercialized, the Corporation's products may potentially compete with existing products on the market. Various people in the healthcare sector, such as those who may prescribe or dispense the new drugs commercialized by the Corporation and the parties responsible for drug reimbursement, may select other treatments than those offered by the Corporation.

Competition. The Corporation is subject to significant competition from pharmaceutical companies, biotechnology companies, academic and research institutions as well as government agencies with greater capital resources, research and development staffs and facilities who are pursuing the development of products that are similar to the Corporation's. Many of these organizations have marketing capabilities superior to the Corporation's.

Capital Resources. In order to achieve its long term development and commercialization strategy, the Corporation will need to raise additional capital through the issuance of shares or collaboration agreements or partnerships that would allow the Corporation to finance its activities. Nothing guarantees that additional funds will be available or that they may be acquired according to acceptable terms and conditions, allowing the Corporation to successfully market its products.

Human Resources. Members of management and scientists are highly qualified individuals who are essential to the successful research and development of the Corporation's products. Loss of services from a large part of this group or the inability of the Corporation to attract highly qualified personnel could compromise the Corporation's growth.

Volatility of Share Price. The market price of the Corporation's shares is subject to volatility. General market conditions as well as differences between the Corporation's financial, scientific and clinical results and the expectations of securities analysts covering its activities can have a significant impact on the trading price of the Corporation's shares.

Harbor Statement. The matters discussed in this annual report and more specifically in this management's discussion and analysis of financial condition and results of operations are, by nature, forward-looking. For the reasons mentioned above and elsewhere in this annual report, as well as for other reasons, actual results could differ materially.

The management of BioMS Medical Corp. has prepared the financial statements and all of the information in this annual report, and is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these financial statements conform with Canadian generally accepted accounting principles, which recognize the necessity of relying on Management's judgment and best estimates. When alternative accounting methods exist, Management has chosen those it deems most appropriate in the circumstances. Financial information presented throughout this annual report is consistent with that in the financial statements.

To fulfill its responsibility and to ensure integrity of financial reporting, Management maintains a system of internal accounting controls. These controls, which include a comprehensive planning system and timely reporting of periodic financial information, are designed to provide reasonable assurance that the financial records are reliable and form a proper basis for the accurate preparation of financial statements.

Final responsibility for the financial statements and their presentation to shareholders rests with the Board of Directors. The Audit Committee of the Board of Directors oversees management's preparation of financial statements and financial control operations. The Audit Committee meets separately with Management and the Company's independent auditors, Collins Barrow, to review the financial statements and recommend approval by the Board of Directors.



Kevin Giese
President and Chief Executive Officer



Don Kimak
Chief Financial Officer

To the Shareholders of BioMS Medical Corp.

We have audited the consolidated balance sheets of BioMS Medical Corp., a development stage corporation as at December 31, 2005 and December 31, 2004 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and December 31, 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Edmonton LLP

Edmonton, Alberta
February 1, 2006

Chartered Accountants

December 31, 2005 and 2004

	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 34,526,582	\$ 12,385,258
Short term investments	3,509,061	2,000,342
Amounts receivable	191,233	234,709
Prepaid expenses	2,452,509	438,229
	40,679,385	15,058,538
Investment (Notes 3 and 4)	–	189,057
Licensing costs (Note 5)	10,325,869	11,797,583
Property and equipment (Note 6)	353,907	203,487
	\$ 51,359,161	\$ 27,248,665
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 3,451,080	\$ 1,138,999
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	96,688,272	59,092,732
Contributed surplus (Note 7)	1,326,154	613,095
Deficit	(50,106,345)	(33,596,161)
	47,908,081	26,109,666
	\$ 51,359,161	\$ 27,248,665

Commitments (Note 13)

See accompanying notes

Approved on behalf of the Board



Director



Director

Condensed Consolidated Statement of Operations

For the Years Ended December 31, 2005 and 2004 and Period From Inception to December 31, 2005

	Cumulative from Inception to December 31,		
	2005	2005	2004
Expenses			
Research and development (Note 8)	\$ 30,637,302	\$ 10,572,827	\$ 7,282,549
General and administrative (Note 9)	14,450,536	4,806,978	4,097,860
Amortization of licensing costs	7,339,417	1,471,714	1,471,742
Amortization of property and equipment	145,403	71,350	43,653
	52,572,658	16,922,869	12,895,804
Less:			
Investment income	3,431,047	1,163,086	388,570
Net loss	\$ 49,141,611	\$ 15,759,783	\$ 12,507,234
Loss per common share			
- basic and fully diluted (Note 10)		\$ 0.26	\$ 0.24

See accompanying notes

Accumulated Deficit

For the Years Ended December 31, 2005 and 2004 and Period From Inception to December 31, 2005

	Cumulative from Inception to December 31,		
	2005	2005	2004
Balance, beginning of period	\$ -	\$ 33,596,161	\$ 20,791,317
Change in accounting policy (Note 3)	-	189,061	-
Balance as restated	-	33,785,222	20,791,317
Net loss	49,141,611	15,759,783	12,507,234
Excess of repurchase price of common shares over stated capital	964,734	561,340	297,610
Balance, end of period	\$ 50,106,345	\$ 50,106,345	\$ 33,596,161

See accompanying notes

CONDENSED STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2005 and 2004 and Period From Inception to December 31, 2005

	Cumulative from Inception to December 31,		
	2005	2005	2004
Cash provided by (used in):			
Operating Activities			
Net loss	\$ (49,141,611)	\$ (15,759,783)	\$ (12,507,234)
Items not involving cash:			
Stock-based compensation	1,326,154	713,059	209,167
Amortization of licensing costs	7,339,417	1,471,714	1,471,742
Amortization of property and equipment	145,403	71,350	43,653
Net change in non-cash working capital balances related to operations (Note 11)	793,183	341,273	(1,542,854)
	(39,537,454)	(13,162,387)	(12,325,526)
Investing Activities			
Investment funds advanced (Note 3)	–	–	(67,507)
Purchase of property and equipment	(499,312)	(221,770)	(112,613)
Licensing costs	(6,467,434)	–	–
Purchase of short term investments	(3,509,061)	(1,508,719)	(2,000,342)
	(10,475,807)	(1,730,489)	(2,180,462)
Financing Activities			
Repurchase of share capital (Note 7)	(1,913,483)	(1,299,252)	(454,681)
Share issue costs	(5,497,466)	(3,293,748)	(1,042,440)
Proceeds from issuance of share capital (Note 7)	91,950,792	41,627,200	9,439,733
	84,539,843	37,034,200	7,942,612
Increase (decrease) in cash	34,526,582	22,141,324	(6,563,376)
Cash and cash equivalents, beginning of year	–	12,385,258	18,948,634
Cash and cash equivalents, end of year	\$ 34,526,582	\$ 34,526,582	\$ 12,385,258
Cash and cash equivalents consists of:			
Bank accounts	\$ 3,026,106	\$ 3,026,106	\$ 642,745
Interest bearing deposits and securities	31,500,476	31,500,476	11,742,513
	\$ 34,526,582	\$ 34,526,582	\$ 12,385,258

See accompanying notes

December 31, 2005 and December 31, 2004

BioMS Medical Corp. (the "Corporation") is incorporated in Alberta under the Business Corporations Act and is a development stage corporation. The Corporation develops new pharmaceutical technologies through pre-clinical and clinical trial stages, with the primary focus on the development of its drug MBP8298 for Multiple Sclerosis.

Principles of Consolidation

These consolidated financial statements include the accounts of the Corporation, its wholly owned subsidiaries, BioMS Technology Corp. and BioMS Technology International Ltd. and a variable interest entity (VIE) for which the Corporation is the primary beneficiary, BioCyDex Inc. The Corporation has a 49% interest in BioCyDex Inc. All intercompany balances and transactions have been eliminated on consolidation.

Cash and Cash Equivalents

Cash and cash equivalents includes balances with banks, term deposits and investments, which are highly liquid interest bearing marketable securities or deposits with a maturity of three months or less when purchased.

Short Term Investments

Short term investments include securities and a term deposit with an original maturity of greater than three months.

Property and Equipment

Property and equipment is recorded at cost less amortization. Property and equipment is amortized over the estimated useful life using the straight-line method at an annual rate of 20%. The Corporation evaluates the carrying value of property and equipment whenever events or changes in circumstances indicate the carrying value may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the fair value. The fair value is determined by the sum of the undiscounted cash flows expected to result from its use and eventual disposition.

Licensing Costs

Costs incurred to acquire license rights and acquire product and process technology are capitalized. Capitalized costs are being amortized on the straight-line method over the term of the license agreement, being twelve years. The Corporation regularly reviews its licensing costs for impairment and records an impairment charge when the carrying amount exceeds fair value.

Research and Development Costs

Research and development costs are expensed as incurred unless they meet generally accepted accounting criteria for deferral and amortization. The Corporation reassesses whether it has met the relevant criteria for deferral and amortization at each reporting date. To date, no development costs have been deferred.

Income Taxes

The Corporation accounts for and measures future tax assets and liabilities in accordance with the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

Foreign Currency Translation

Revenue and expense transactions denominated in foreign currencies are translated into Canadian dollars at the average exchange rates in effect at the time of such transactions. Monetary assets and liabilities are translated at current rates at the balance sheet date. Gains or losses resulting from these translation adjustments are included in the statement of operations.

Stock-Based Compensation

The Corporation grants stock options to employees, directors and consultants pursuant to a stock option plan described in Note 7. The Corporation uses the fair value method of accounting for all stock-based awards granted since January 1, 2003.

Investment Income

Investment income is recognized on the accrual basis in accordance with the investments held.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Consolidation of Variable Interest Entities

During the fourth quarter of fiscal 2005, the Corporation adopted the recommendations set out in Accounting Standards Board Guideline AcG-15, "Consolidation of Variable Interest Entities". Under this guideline, certain variable interest entities (VIE) must be consolidated. A VIE is any legal entity that is controlled by contractual rights or other financial interest but not a voting equity interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ADOPTION OF NEW FINANCIAL ACCOUNTING STANDARDS

The Corporation applied the provisions of AcG-15 retroactively with no restatement of prior periods. Accordingly, the Corporation consolidated an investment in which it has a variable interest and is the primary beneficiary. As a result of the application of this new accounting principle in 2005, an adjustment of \$189,061 was made to opening deficit; investment decreased by \$189,057; research and development decreased by \$4.

INVESTMENT

During December 2005, the Corporation exercised its option to increase its investment in BioCyDex Inc. from 30% to 49% for an amount of \$137,609. As a result of adopting the recommendations set out in Accounting Standards Board Guideline AcG-15, as discussed above in Note 3, the accounts of the company have been included in the consolidated financial statements.

INTANGIBLE ASSETS

	2005			2004
	Accumulated			
	Cost	Amortization	Net	Net
Licensing costs	\$ 17,665,286	\$ 7,339,417	\$ 10,325,869	\$ 11,797,583

The licensing costs relate to patents the Corporation has acquired with respect to the treatment of Multiple Sclerosis. There was no impairment of licensing costs recorded during the years ended December 31, 2005 and 2004.

PROPERTY AND EQUIPMENT

	2005			2004
	Accumulated			
	Cost	Amortization	Net	Net
Furniture and equipment	\$ 23,150	\$ 5,325	\$ 17,825	\$ 13,589
Computer equipment and software	156,108	75,258	80,850	85,585
Leasehold improvements	320,052	64,820	255,232	104,313
	\$ 499,310	\$ 145,403	\$ 353,907	\$ 203,487

AUTHORIZED SHARES

Authorized:

Unlimited number of Class A and B voting, common shares

Unlimited number of Class C and D non-voting, common shares

Unlimited number of Class E, F, G, H and I non-voting, redeemable, retractable, preferred shares

	Class A Common Shares		Contributed Surplus
	Issued and Outstanding Shares	Amount	
Balance, December 31, 1999			
Common shares issued for cash	2,900,000	\$ 460,000	\$
Share issue costs		(76,610)	
Balance, December 31, 2000	2,900,000	383,390	
Reverse takeover by BioMS Technology Corp.	38,431,289	30,104,917	
Issued for cash on exercise of stock options	3,266,630	9,070,490	
Common shares issued for cash	3,300,000	8,250,000	
Share issue costs		(971,065)	
Balance, December 31, 2001	47,897,919	46,837,732	
Issued for cash on exercise of share purchase warrants	658,752	2,635,008	
Private placement issued for cash	150,000	615,000	
Issued for cash on exercise of employee stock options	3,000	8,911	
Share issue costs		(15,375)	
Balance, December 31, 2002	48,709,671	50,081,276	
Issued for cash on exercise of share purchase warrants	330,000	825,000	
Repurchase pursuant to normal course issuer bid	(52,200)	(53,766)	
Contributed surplus			403,928
Balance, December 31, 2003	48,987,471	50,852,510	403,928
Private placement issued for cash	2,844,495	9,386,833	
Issued for cash on exercise of employee stock options	126,000	52,900	
Repurchase pursuant to normal course issuer bid	(137,300)	(157,071)	
Share issue costs		(1,042,440)	
Contributed surplus			209,167
Balance, December 31, 2004	51,820,666	59,092,732	613,095
Private placement issued for cash	11,500,000	41,400,000	
Issued for cash on exercise of employee stock options	53,500	38,400	
Issued for cash on exercise of share purchase warrants	47,200	188,800	
Repurchase pursuant to normal course issuer bid	(483,200)	(737,912)	
Share issue costs		(3,293,748)	
Contributed surplus			713,059
Balance, December 31, 2005	62,938,166	\$ 96,688,272	\$ 1,326,154

Shares Issued

In relation to the short form prospectus offering dated March 14, 2005, 10,000,000 units of the Corporation were issued at a price of \$3.60 per unit to raise gross proceeds of \$36,000,000. The Corporation also used its over-allotment option and issued another 1,500,000 units at a price of \$3.60 per unit to raise gross proceeds of \$5,400,000. The total proceeds from this short form prospectus offering was \$41,400,000. Each unit consisted of one Class A common share of the Corporation and one share purchase warrant entitling the holder to purchase one Class A common share at a price of \$5.00 per share on or before March 23, 2009.

Normal Course Issuer Bid

On August 7, 2003, the Corporation received approval for a Normal Course Issuer Bid allowing the Corporation to repurchase up to 500,000 Class A common shares, during the period of August 15, 2003 to August 14, 2004 at the market price at the time of the repurchase. All common shares acquired by the Corporation pursuant to the Normal Course Issuer Bid were cancelled by BioMS Medical Corp. Pursuant to the Normal Course Issuer Bid, the Corporation acquired 125,900 of its common shares at an average price of \$3.26 per share. The excess of the purchase price over the stated capital of the common shares has been charged to the deficit.

On August 12, 2004, the Corporation received approval for a Normal Course Issuer Bid allowing the Corporation to repurchase up to 200,000 Class A common shares during the period of August 15, 2004 to August 14, 2005 at the market price at the time of the repurchase. On May 20, 2005, the Corporation received approval to increase its Normal Course Issuer Bid allowing the Corporation to repurchase up to 1,000,000 Class A common shares during this same period. The corporation acquired 375,000 of its common shares at an average price of \$2.79 per share. All common shares acquired by the Corporation pursuant to the Normal Course Issuer Bid were cancelled by BioMS Medical Corp. The excess of the purchase price over the stated capital of the common shares has been charged to the deficit.

On August 15, 2005, the Corporation received approval for a Normal Course Issuer Bid allowing the Corporation to repurchase up to 1,000,000 Class A common shares during the period of August 15, 2005 to August 14, 2006 at the market price at the time of repurchase. The Corporation acquired 171,800 of its common shares at an average price of \$2.67 per share. All common shares acquired by the Corporation pursuant to the Normal Course Issuer Bid were cancelled by BioMS Medical Corp. The excess of the purchase price over the stated capital of the common shares has been charged to the deficit.

Incentive Stock Option Plan

The Corporation's incentive stock option plan permits the grant of stock options to employees, directors, officers and consultants of the Corporation. The Options are non-transferable. Options granted to directors and officers will terminate one year following the date the optionee ceases to be a director or hold an office of the Corporation by reason of death, or 90 days after ceasing to be a director or officer for any reason other than death. Options granted to employees and consultants will expire on the date the optionee ceases to be an employee or consultant of the Corporation. At December 31, 2005, 8,000,000 common shares were reserved for stock options, of which 4,172,500 have been granted under this plan. The remaining 3,827,500 stock options are available for grant in the future under the plan. At December 31, 2005, the outstanding stock options also include 1,112,000 options which were issued prior to the establishment of the stock option plan. On April 27, 2005, the expiry date on 1,082,000 options was extended an additional five years from July 23, 2006 to July 23, 2011 and from March 24, 2007 to March 24, 2012.

COMPENSATION

Incentive Stock Option Plan (continued)

	December 31, 2005		December 31, 2004	
	Number of	Weighted Average Exercise Price	Number of	Weighted Average Exercise Price
	Options		Options	
Outstanding, beginning of period	4,040,500	\$ 3.36	2,911,500	\$ 3.22
Granted	1,297,500	3.15	1,285,000	3.43
Cancelled	–	–	(20,000)	2.50
Expired	–	–	(10,000)	2.97
Exercised	(53,500)	0.72	(126,000)	0.42
Outstanding, end of period	5,284,500	3.34	4,040,500	3.36

Range of Exercise Prices:

	Options Outstanding			Options Exercisable	
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number of Options	Weighted Average Exercise Price
\$2.50 to \$2.97	1,372,000	\$ 2.60	6.59	1,372,000	\$ 2.60
\$3.08 to \$3.50	2,507,500	3.35	8.64	2,477,500	3.32
\$3.65	60,000	3.65	7.24	60,000	3.65
\$4.00 to \$4.14	1,315,000	4.00	6.71	1,315,000	4.00
\$5.75	30,000	5.75	0.85	30,000	5.75
	5,284,500	3.34	7.57	5,254,500	3.32

NOTE 10

Incentive Stock Option Plan (continued)

3,090,000 options are issued to directors, some of whom are officers, and 2,194,500 options are issued to employees and consultants.

As the Corporation is following the fair value based method of accounting for stock options, compensation expense of \$713,059 has been recorded for the year ended December 31, 2005 (2004 - \$209,167).

The Corporation used the Black-Scholes option valuation model to estimate the fair value of the options for the year ended December 31, 2005 and 2004 using the following weighted average assumptions:

	2005	2004
Dividend yield	0.0	0.0
Volatility factors of expected marketplace	0.26	0.22
Risk-free interest rate	3.8%	3.3%
Weighted average expected life of the options	69 mos.	72 mos.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, the valuation model calculates the expected stock price volatility based on highly subjective assumptions. Because the Corporation's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing model does not necessarily provide a reliable single measure of the fair value of its employee stock options.

Warrants

The Corporation has issued warrants as follows:

	Weighted Average Number of Warrants	Subscription Price
Outstanding, beginning of year	1,815,000	\$ 4.00
Issued during the year	1,422,248	4.00
Outstanding, December 31, 2004	3,237,248	
Issued during the year	11,500,000	5.00
Exercised during the year	(47,200)	4.00
Expired during the year	(3,190,048)	4.00
Outstanding, December 31, 2005	11,500,000	

Warrants (continued)

Effective September 30, 2003, the exercise price of warrants to purchase up to 1,815,000 common shares was reduced from \$5.80 per share to \$4.00 per share and the expiry date was extended from October 22, 2003 to October 22, 2004. Effective October 21, 2004, the expiry date was extended from October 22, 2004 to October 22, 2005.

The 1,422,248 warrants issued under the prospectus dated January 12, 2004 have an exercise price of \$4.30. The exercise price was reduced December 23, 2004 to \$4.00 per share and the expiry date was extended from March 17, 2005 to October 22, 2005. Each whole warrant entitles the holder to purchase one Class A common share on or before October 22, 2005. The warrants have an estimated fair value of \$290,575 and have been included as part of share capital.

The warrants issued under the prospectus dated March 14, 2005 have an exercise price of \$5.00 per share. Each warrant entitles the holder to purchase one Class A common share on or before March 23, 2009. The warrants have an estimated fair value of \$4,669,848 and have been included as part of share capital.

Research and development costs consist primarily of expenses related to clinical development programs for MBP8298 and associated commercialization expense primarily consisting of product manufacturing initiatives.

General and administrative expenses consist primarily of consulting services, office expenses, occupancy costs, management remuneration and other expenses.

Loss per share has been allocated on the weighted average number of common shares outstanding for the year of 60,602,944 (December 31, 2004 - 51,167,584).

The effect of potential exercise of options and warrants is anti-dilutive at December 31, 2005 and December 31, 2004 and is therefore not presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. OTHER FINANCIAL INFORMATION - CAPITAL PATTERNS

	2005	2004
Amounts receivable	\$ 43,472	\$ (101,730)
Prepaid expenses	(2,014,280)	(371,543)
Accounts payable and accrued liabilities	2,312,081	(1,069,581)
	<u>\$ 341,273</u>	<u>\$ (1,542,854)</u>

12. INCOME TAX

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Corporation has recognized a valuation allowance for those future tax assets for which it is more likely than not that realization will not occur. Significant components of the Corporation's future tax assets and liabilities as of December 31, 2005 are as follows:

	2005	2004
Research and development expenditures carry-forwards	\$ 7,108,143	\$ 3,765,714
Difference between book value and tax value of property and equipment and licensing costs	2,952,280	2,452,925
Research and development tax credits	5,398,750	3,393,857
Non-capital tax losses carry-forwards	6,653,091	5,556,295
	<u>22,112,264</u>	<u>15,168,791</u>
Valuation allowance	(22,112,264)	(15,168,791)
Net future income tax asset	<u>\$ -</u>	<u>\$ -</u>

As at December 31, 2005, the Corporation has scientific research and experimental development expenditures in the amount of \$21,142,604 (2004 - \$11,118,138) available for carry-forward indefinitely to reduce future taxable income. The Corporation has unclaimed investment tax credits of approximately \$5,398,750 (2004 - \$3,393,857) available to reduce future income taxes otherwise payable.

10.1 NON-CAPITAL INCOME TAX LOSSES

The Corporation also has non-capital income tax losses in the amount of \$19,789,088 in the aggregate available as at December 31, 2005 to reduce taxable income in future years. The potential income tax benefit of these losses has not been reflected in the financial statements at December 31, 2005. The losses and credits will expire as follows:

	Federal Investment Tax Credits	R & D Carry- Forwards	Non-Capital Losses Carry- Forwards
2007	\$ -	\$ -	\$ 659,307
2008	-	-	3,056,691
2009	-	-	6,078,151
2010	-	-	3,143,323
2011	354,157	-	-
2012	566,881	-	-
2013	1,016,310	-	-
2014	1,456,509	-	3,467,297
2015	2,004,893	-	3,384,319
Indefinitely	-	21,142,604	-
	\$ 5,398,750	\$ 21,142,604	\$ 19,789,088

The difference between the computed expected income tax recovery based on a combined federal and provincial tax rate of 33.62% (2004 - 33.87%) and the actual income tax recovery are summarized as follows:

	2005	2004
Computed expected income tax recovery	\$ 5,298,440	\$ 4,236,200
Decrease in tax resulting from:		
Amortization in excess of deductible expense for tax	(349,628)	(512,206)
Unrecognized research and development tax deduction	(3,538,326)	(2,466,599)
Non-deductible items	(256,418)	(42,521)
Unrecognized benefits of non-capital losses	(1,154,068)	(1,214,874)
Income tax expense	\$ -	\$ -

3. **COMMITMENTS**

- A) The Corporation has entered into a licensing agreement to cover certain patent claims related to Medical Technology for the treatment of Multiple Sclerosis. The licensing agreement requires payment of a monthly maintenance fee plus royalties on an escalating scale based on net sales of the licensed product.
- B) The Corporation has entered into a licensing agreement to cover certain patent claims relating to new medical technology for mobilizing hematopoietic cells in humans. This licensing agreement requires payment of an initial licensing fee to be made concurrently with execution of the Clinical Research Program Agreement, additional payments upon reaching certain objectives, and royalties on an escalating scale based on net sales of the licensed product.
- C) The Corporation has entered into development and supply agreements with third parties to produce and supply a pharmaceutical during the development and commercial period. In addition to the commitment to pay for the supply of pharmaceutical provided, the Corporation has also committed to make certain milestone payments as they are achieved by the third parties.

4. **Financial Instruments**

Financial instruments of the Corporation consist mainly of cash and cash equivalents, short term investments, amounts receivable, investment and accounts payable and accrued liabilities. As at December 31, 2005 and 2004, there are no significant differences between the carrying amounts of these items and their estimated fair values.

5. **Related Party Transactions**

The Corporation paid management and administration amounts of \$1,195,000 (2004 - \$882,500) to companies controlled by directors and officers. Office rent and general administrative expenses in the amount of \$231,055 (2004 - \$167,175) were also paid to a company controlled by a director of the Corporation.

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

6. **Interest Rate Exposure**

The Corporation has reduced its exposure to interest rate risk by holding short term deposits.

7. **Credit Exposure**

The Corporation has no exposure to credit risk as no sales have yet occurred.

CORPORATE INFORMATION

Clifford Giese

Chairman

Kevin Giese

President and Chief Executive Officer

Laine Woollard

Director

Dr. Kjell Stenberg

Chief Operating Officer

Dr. John Wetherell

Director

Bryan McKnight

Director

Don Kimak

Chief Financial Officer

Michael Kennedy

Secretary

Tony Hesby

Executive Vice President Corporate Affairs

Anfield Sujir Kennedy & Durno

Collins Barrow

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